Brand in Retail: The Role of Private Labels (The case study of cosmetic shop in Thailand)

Subject: Advanced Marketing

By: Peerapong Kitiveshpokawat

ABSTRACT

The one of our cosmetic business disadvantage in Thailand is being engaged for only foreign brand owner production as OEM manufacturers. To overcome this threat, the cosmetic entrepreneurs have tried to develop their own marketing format to compete with other competitors in any form of consumer market. This paper will show how the business created a store brand strategy to be other mode of market entry. The issue of relationship between store brands and own label products have also clarified. Cosmeda is the one of retailer choice who has settled their store channel with the private label products and retail store concept driven by intensive competition market. This paper also explained how the store brands are important for retailers and why customers are willing to choose their store concepts.

Key Words: Store Brand, Own labels, Private Label Brand, cosmetic product.
The Role of Private Labels

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The Role of Private Labels

1. **Introduction**: the retail case company, background, brands carried

**Why Retail Store Brand**

In current rapid pace of growth in cosmetic retail creates both opportunities and new market challenges for consumer cosmetic brands. Cause of shopping behaviors have been changed, the existing channels of distribution has more conditions and no longer sufficient for a new and small players. Many brands are approaching the new channel to establish and being greater involve over the brand experience. Gradually, setting up a new retail business formats are becoming part of the solution while for establishing retail store brands are the choice of business primary growth driver and also being the strategic revenue contributor.

**What is the Cosmeda**

1.1. **Background of Company**

The Monapolitan is the name of cosmetic company who is able to set up Retail Brand through their own store concepts. They have developed also Private Label Brands in many names distributed to their store network which are the innovative concept of shopping atmosphere. From the point of this view, Ailawadi (2004) argued that in condition of a large portion of most retailers’ revenue and profit came from selling manufacturer brands, then Retailer will not reach to differentiate their positioning due to many of their competitors also offer. The Cosmeda had to build brands to avoid the market competition and created their equity retail store concept even through it took a lot of risk in fragmented cosmetic market. Those particularly challenging problems will be turn to become the one with big potential rewards if the retailer can achieve their market goals. (Ailawadi, 2004)

In 2001, Monapolitan Co., Ltd launched its new cosmetic retail concept in order to distribute their cosmetic and beauty related products in an attractive and vibrant looking retail environment with international standard located in central business district, shopping center or populated residential area. The unique concept of Cosmeda mainly focus on young and trendy lifestyle target group who become more and more interested to purchase their cosmetic product conveniently.
With Cosmeda’s specialized skills and experience coupled with company’s strong establishment in cosmetic segment in Thailand, the company has opened its 30 new company-owned outlets by year 2007. Up to now (2011) there are Cosmeda shops more than 200 stores around the Thailand territory and the company plan to launch its franchise program with this concept plus more 100 outlets by year 2015. (Source: Cosmeda strategic plan 2010)

Picture 1: The Monapolitan’s head office in Bangkok

Picture 2: the pictures of the new first flagship store in 2005 at Wonsawang district Bangkok, Thailand.
2. The nature of cosmetic in current market

Thailand overall growth rate of the cosmetic products market in for 2010 was increasing 7 percent and the growth rate for 2011 is forecasted at approximately 10 percent due to increased in local consumption. From the past record in the year 2010, Skin care products had the highest market share with 37 percent and a growth rate of 9 percent. For hair care product consumption has been reached up 30 percent of the total market which mean is the higher percentage growth comparing with only 7 percent growth from the year 2009. The market share of make-up products was also 29 percent with 6 percent growth rate. And the perfume had the lowest market share of 4 percent with at growth rate of 4 percent. (U.S. Commercial Services, 2010).

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<td>Make Up</td>
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<td>Skin Care</td>
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<td>Perfume</td>
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<td><strong>Total</strong></td>
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The Thai Customs Department, Ministry of Finance
Exchange rate: US$1:THB30

2.1 Prospective Buyers

The Thai customer’s behaviors have been noticed that they are more likely to concern about cosmetic products gradually. The cosmetic products are becoming a part of a modern life style in any group of ages, careers, genders especially among the male target group is significant increasing consumption in skin, hair, deodorant, oral products and shaving products as well.

The target market at 15 to 29 years of age, (approximately 16 million peoples) this group is 39 percent of the total 41 million potential customers. These people have been under junior employment status and still lower socio-economy income. They will consume the low to medium quality/price range group of cosmetic products. Whilst the group of 30 to 44 years of age which are approximately 15.5 million peoples representing 38 percent of the total potential customers are the working age group with mid-level to senior management. They are able to spend for a medium to high quality cosmetic products market. (U.S. Commercial Services, 2010).

2.2 Challenges the retailer faces when it comes to the area of branding

**Market Entry:** the condition barriers which block the new cosmetic brand
The consequence of rapid growth rate in cosmetic product consumption was created variety of channels to ensure greater customer satisfaction. Overall market trend, the cosmetic products distribution channels mostly comprised of three major practicing formats as follow: (U.S. Commercial Services, 2010)

**Direct sales**, this is a major marketing channel with 60 percent of total markets. The international direct-sale business is booming with many players, for examples: Amway, Avon, Herbal Life, Nu Skin, Nu Life, Nature’s Best.

The second channel is **Counter sales** which represent market portion about 30 percent of the market volume. This is a standard of traditional marketing practice for high-end quality products on international well-known brands and a high degree of mark up-pricing cosmetic products.

The last channel is "**Hanging sales**". This channel drives market shared portion at 10 percent to total market and present concentrated mass market including with medium and low-end product lines. There are several major players, for brand examples as Mary Kay, Maybelline, Oil of Olay, Johnson & Johnson, Procter & Gamble, and Unilever. Additionally, this market has also included the channel type for chain stores. There are an increasing number of chain stores especially for the emerging retailers such as the Korean brand: Missha, The Face, Do Do Club, Etude and ZaZa from Hong Kong included the domestic brand as Cosmeda. Some of them are also starting Franchise operation in order to expand their outlets network covering the entire territory in shorter period.

Enter to the fragmented market get a bit more complicated, the company has to fine-tune their strategic distribution policy to overcome market barriers and want to be capable enough to communicate their store brand positioning and product categories to the appropriated target market. Unless they understand store brand capabilities, they have to follow the traditional trading cosmetic business that most of them were failed.

**3 The company strategy with private brands and store brand to fulfill the market gap**

In order to gain competitive advantage in cosmetic market, the Cosmeda may have tried to stay differentiate themselves from the competitors as a quality product to response the customer’s need. The product development has been innovated continually with the new recipes, technology or even new innovative ingredients will be pursued the market trend which is more segmented or
break through the individual need level. By the way, the company has to communicate brand positioning clearly through products features and store attributes.

Sudhir (2004) has provided that the reasons of company who is focusing on sales or market shares has to increase the market share of store brands would in order to increased profits since store brands are more profitable than manufacturer’s brands. This is the main reasons which are “the push factors” to let Cosmeda developed their variety of PLBs (Private Label Brands) and installed them all under umbrella of their own Store Brand “Beauty Buffet”.

The unique concept of “BB Cosmeda” beauty shop has been developed from an idea of all in one cosmetic center which clearly reflect consumers’ personal style. Instead of doing the same of manufacturer’s cosmetic brands which are distribute exactly the same selling channels; they have made the change to become their own brand concept store.

The Cosmeda founder who ever noticed at the Counter sale services, he said “Some of customer might have problems of products selecting from BA (Beauty Advisor) who are selling their only one brand in their brand counter. ‘What a shame if customer try to ask some information and try out a little of demonstrated product but then they don’t want to buy and would across to another counter in the same or nearly selling place. Why does customer have to face with only reluctant shopping behaviors in Counter selling in Department Store? (From the interview with Dr.Suwin, founder of Cosmeda, 2011)

Since from that statement, the company started to study ground work improving their own prototype store which has been able to let customers feel freely to select any brands, any kind of products in the most preferred prices without bothering from sales persons convincing to buy their own products and not even be worried about buying something which they might don’t like it after demonstrations. That one thought, the concept of “Reflection your own” for customer was established under shopping atmosphere which offering the customer self selecting, testing in brand and price variety, became “the convenience store of beauty products” store concept.

Beauty Buffet Strategic Plan

Once the retailers whose capacities enable them to compete with Manufacturer Products, they will increase their own market power sharing channel pie, they may have to sell some of their own brands. (Ailawadi, 2004) Under high risk competition, there are three key components which are always affected to store patronage comprised with the retailer store image, the quality of the merchandise with brands sold and the last one is price and promotions. (Grewal, et al, 1998) Retailers have to develop those components in order to stand on their differentiation which influence to the store patronage development and improve their competitive situation.
In fact, the Brand Image is a most important marketing factor, so the concept of Private label Brand products are considered as their own uniqueness represented in form of Product Brand names, Store Attributes and Store design, etc. From the marketing condition, Retailer are certainly willing to label the own name to all in-store selling products. (Ailawadi, 2004) The BB (Beauty Buffet) strategic solution to compete with the national brand was created to set up their Store brands (SB’s) and private labels to moderate market competition. In order to strengthen their own Retail Brand name, Cosmeda has achieved the 2 creative strategic solutions.

1st strategy “Create the in-store business behavior or shopping service design concept”

Brands are going retail using variety of channels and formats which are physical stores ranged from over-the-top flagships to full-line stores, shop-in-shops and just selling outlets. Other formats include temporary and mobile stores, such as kiosks, pop-up stores and vending machines. We are also seeing the trend of brands extending into shopping experiences. Sudhir (2004) recommended that from the research finding, it’s more clearly that the Store Brands being a part of differentiation tool and allowing retailers use store brand patronage as a targeting variable for promotions.

**Cosmeda**, it was a store name has grown from the original shop brand, **NEO** and then the image scaled up to **Mona**. Since the business was established its foot in the beauty segment from manufacturing local cosmetic products, together with distributing and retailing import products all in one go, Cosmeda always aimed to crate business volume through their store chain. The flagship brand store is an increasingly popular venue used by marketers to build relationships with consumers. (Kozinets et.al, 2002) The Cosmeda was refining the final BB flagship store into new existing format which was not only promotes their Retail Brand also satisfies consumers who looking for self entertainment alongside their shopping experiences. (Attached with store picture in Appendix)

The first concept "Neo" shop
The second step "MONA" shop concept

The third concept was named COSMEDA 1
The latest developed concept was named "Beauty Buffet"

The Identity Prism and Beauty Buffet Store Concept

It is remarkable that the selected choice of store, consumers have often decided to visit before the actual purchase. Shoppers even start to evaluate the shop based on their pre-existing conceptions of style, product range, sizing, price, information, and customer service that they will recall from a retail brand. (Burt, 2000) The function of retailer is making their concept to be outstanding in the customer mind and encouraging them to repurchase or select the shop for shopping trip. The distinguished Store Brand is sometime explained as store identity which under the term of "Brand Personality". Unfortunately, that's not really clarification.

The Store brand concept was explained more clearly by using Kapferer's dimensions of brand identity model called "Brand identity prism". (Kapferer, 1986) This determination becomes the component of how Beauty Buffet communicates their identity to target consumers. The prism model has the most value six facets: (The bellowed figure)
Kapferer created the scales of brand personality which are not the same framework of measurement ever followed traditional concept of human psychological personality but he divided them into the six dimensions of brand identity. This model explanation was compatible to clarify the brand identity characteristics especially in Retail Business. (Azoulay and Kapferer, 2003) This study was comparing the Store Characteristics under “Beauty Buffet” store brand with the Kapferer’s Identity Prism to explore how they characterized their store to consumer’s perceptions.

Firstly, the dimension of **Physical (physique)** is the functional attributes of the store physical appearance and of the offer. Cosmeda will have special design and layout to communicate its uniqueness of each outlet from using the best knock-down shelves which is movable and can be easily installed in any size and type of vacant area.
Secondly, **this is Personality** which often comprised of symbols or personalities used in communication. BB (Beauty Buffet) uses a cartoon character of cooking Chef who being represented the cooking kitchen but fully of colorful cosmetic products. The implication between the character and in-store products is related to the materials safety are brought to their products ingredients which always came from the same food natural resources.

*Chef BB - Beauty Buffet Mascot*

*Thirdly, Relational* is the dimension of sales staff and the support team who has always patronized the store brand with a business behavior services concept. The concept of Cosmeda Beauty Buffet transferred to in-store business behaviors are following the ideas of offering people feel freely in shopping around, the customers are allowed to shop with normal customer’s habits with product testing, smelling, opening the bottle to look at the cosmetic content inside and even apply to their skin for test. This is the essences of services design in different setting to let customer take the meaning of restaurant style so called “Buffet”. The customer can mix and match anything together and do final purchase with remembering fun experiences.

*Fourthly: Cultural* dimension is related to the retailer’s culture from which they originate. Cosmeda communicate the Asian culture through product’s packaging which oriental design. The product always posits all themes being colorful, cheerful, and followed latest Asian trend merchanides.
Fifth, This is **Reflected Customer**: the giving image of the customer is modern characters. The shop are located in prime shopping areas which are represented as a modern style of shoppers.

The lastly, **Customer Self-Concept**: this is the image of the customer which BB (Beauty Buffet) convey them to be self-high confidence personality by using cosmetic without too much concern only the brand but daring to take advance in considering at products and services quality. The customers are always encouraged to test and select the product as much as they want in order to serve their willingness with safety return policy.

<table>
<thead>
<tr>
<th>Store brand Identity</th>
<th>The Beauty Buffet</th>
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<tr>
<td>Physique – Rational</td>
<td>The decoration with Pink color and look alike nice modern kitchen, The BB Chef - Mascot</td>
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<tr>
<td>Personality - Emotional</td>
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<tr>
<td>Relation – Exchange</td>
<td>Buffet Concept</td>
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<tr>
<td>Culture - Meaning</td>
<td>Asian Packaging Style</td>
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<tr>
<td>Reflected Customer – communication</td>
<td>Prime area location</td>
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<tr>
<td>Customer Self-Concept - Promise</td>
<td>Self Services concept</td>
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<tr>
<td>Modern style, Self Confidences</td>
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2nd Strategy: “Develop the product and own label products”

The **own label products**, or private labels are mostly exclusively which they may be developed by third party. The category includes with a general items which may substitute to National Brand Products (NB). Private label was found that they market better than national manufacturers who are weak in national advertising and the private label product should focus to upgrade their product’s quality more than put effort to make it lower prices. (Hoch, 1993)
From the research, it indicated that the retailer prefers to have a store brand when they want to competes heavily with the national brands. (Sayman et.al, 2000) The establishment of PLBs would bring company strong competitive advantages and enhancing created successful marketing from own branded products. The case study of Cosmeda, it showed that the market entry barriers forced them to differentiated themselves from other competitors by holding the exclusivity of own brands for only their stores.

**Product Category Management**

Category Management process is the one of crucial key being adopted to the overall company policy and business strategy. The retailers must explicitly define the role of each product category which they would market in the overall store portfolio. Product Category management is the tools to let the retailer define the roles of store brands, both at the chain level and within any specific category. (Hoch, S.J., and Lodish, L.M. 1998) The product categories has been offered under the "Beauty Buffet" store brand meanwhile the store product categories were dividing into five groups comprised with Makeup products, Skin care, Toiletry, Functional and Accessory.

The products design in each of category was carefully crafted in order to target their roles clearly and make them to become a traffic builder, transaction builder, cash generator, profit contributor, image or excitement creator. The designed category leads to a disciplined approach for retail’s operation such as space management, everyday pricing policy, and promotion tactics. (Hoch, S.J., and Lodish, L.M. 1998) There are suggestion about the strategic store positioning which adds up to increased category profit by setting the PLBs positioning closer to the leading national brand aim to increases the cross price sensitivity from both the national brands and whole sales prices. This implementation may bring the impact to higher margins for the Retail Store and also increased category demand. (Sayman et.al , 2000)

Brand Image of private label brands are impacted from intrinsic factors which are constructed of advertising, word-of-mouth, prior experience, value for money, packaging, store environment. Meantime in-store promotions are also impact significantly. (Beneke, 2011) In fact, only one successful product may bring retailer beneficial turn over along with marketing advantage.

### 4 The importance of developing a strong retailer brand

“Going retail is not as easy as it may appear”.

Sethuraman (2003) have argued that store brand consumers should value price as an important criterion for purchase, and do not value brand image as important, but may consider quality as an important determinant when choosing among brands.

#### 4.1 Store Brand and PLBs Relationship
From above mention, the terminology of Store brand and Product brand were assumed that both terms should become the same one. Batra (2000) also recommended that private label brands will called as "store brand". Actually, that concept was incompatible when we looked at the Cosmeda case, their store brand and product brand have not been the same name.

Burt (2010) discussed that in the past researches, Retail brand definitions was invariably referred to as the "private brand", the "store brand" or the "retail brand". And he insisted that many scholars argued that Retailer brands are more multi-sensory than product brands. The private brand is relegated to an important part of the brand portfolio offered by retailers. (Burt, 2010)

In term of brand definitions and the company practices, Cosmeda have been concerned of their store positioning which offers customers product variety choices. On the hand, selling mono brand will not patronage the overall strategic retail concept which are the major differentiation of business. And on the other hand, the products itself must be able to be adjusted or even erased from the list of category depend on product life cycle, so the company would keep the Store Brand constancy for long term instead.

The consequence of their positioning strategic decision was employed with variety of brands in each product items for example: lipsticks, they would put about 3 major brands in the same item depending on what quality and offered prices. At the product brand levels, Burt, (2010) argued that characteristic of branding should allows customers identify their preferences, and reduce their search costs. The brands will bring customer product identification and recognition which lead them to do repeat purchasing.

The brand levels in the BB Company

Private Brand's products which are sold in Cosmeda Beauty Buffet are divided into five groups and categorized in Brand Concept for examples as followed:

- **Gino Mccray**: this is a brand for Professional Make Up products.
- **Kallista Rivini**: Sweet & Luxury Make Up products. This group will be focusing on their packages presented the high quality standard.
- **Anne & Florio**: Trendy Make Up is the product which aim to teenage target group with affordable price.
Accesso  This brand was designed for Beauty Accessories & Tools.

Scentio  Skin Food Product with concept of Natural ingredients.

Lansley  Functional Skin Care for skin treatment with Active Ingredient, the main product concept is about Functional Treatment.

**Diagram of Cosmeda Brand Levels**, Peerapong K. 2011

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<tr>
<th>Corporate level</th>
<th>company registered name</th>
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<tr>
<td></td>
<td><strong>Monapolitan</strong></td>
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<th>Store level</th>
<th>the corporate brand - Store Brand Name</th>
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<tr>
<td></td>
<td><strong>NEO ---- MONA ---- COSMEDA ---- Beauty Buffet (Cosmeda)</strong></td>
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<td><strong>Store brand development steps</strong></td>
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<table>
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<th>Products level</th>
<th>Product brands - PLBs (Private Label Brand Name)</th>
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<tr>
<td></td>
<td><strong>Gino Mccray, Kallista Rivini, Anne &amp; Florio, Accesso, Scentio, Lansley</strong></td>
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<td></td>
<td><strong>Variety of PLBs</strong></td>
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From Brand levels diagram, the corporate brand “Beauty Buffet” have been developed from steps to another steps responding to market situation. The **Store brand** concept is included with combination of products, services and experiences, which are designed from the retailer business processes, interacted and related with plenty of channels and associated stakeholders. (Burt, 2010)

5  **Pro and Cons in store brand implementation**

The Pros of private-label marketing is to let retailers become more flexible to select the appropriated Brand Marketing Approaches. And from the research, they found that the customer will be more satisfied along the store brand since they feel that the stores naturally more understand their needs comparing to Manufacture Brands. (Martenson, 2007)
From the positive point of view, when retailer are selling their Private Brand and Manufacturer brand, the retailer are more able to maximize profits from Own Label product category and national brands from their store whilst the manufacturer or national brand have only to maximize the profits from their own products. (Hoch and Lodish, 1998).

Although in the past, private label products typically were forming as “commodity” categories, offered inferior quality, come with poorly packaged, and received little retailer support. But the current Retail Industry circumstance, the consequences of power of distribution was shifted in value chain are making an irreversible redistribution of profits. The transferring of wealth was moved away from national brand manufacturers to Retailers. (Alliance Consulting Group, 2011) In this situation, the retailer should maximize category profits by created their own brands. Eventually, the company will be optimal to have the store brand specifically compete against the national brand with the largest customer base.

Recently, retailers are more focus to improved PLBs quality with new design packaging and put effort budget in marketing surpassing the performance of some manufacturer’s brands. (Alliance Consulting Group, 2011)

Sayman et.al (2000) noticed that in the past the PLBs was always negatively supported from the scholars such as the noted that store brands in 1978 often imitate the category leader, presumably to signal comparable quality at a lower price. In the case that market forced retailer to focus only pricing competition, then the negative impact of business will occurred. Although the demand for the store brand may increased (cause the lower price), but it will downside the demand of market and decrease product ability targeted national brand.

6 Conclusion

Beauty Buffet is a company who are able to created both retailer’s PLBs and Store Brand for cosmetic products market. The main concept of store is mainly offering the selected products in more variety choices. In Beauty Buffet, there are majority 90% of Brands belonging to their own (Private Label) but in different brand name even in same item type in order to offer customer with preferred shopping choices varied to the quality and price selection.

From the view of Kapferer’s Identity Prism analysis, the Beauty Buffet are able to employ their own strong advantages to offer unique opportunities, together with clearer communication and strengthen their own brand positioning while they are boosting the profile to their own target niche market.

Setting up the retail brand can meet other needs as well, such as measuring consumer response to new products, brand extensions, new concepts and new experiences. (Lantos, 2007)
this case study, the customers will choose the shopping store from perceived concepts of the Beauty Buffet which offer variety of products and brands which are also related to the selling prices. The Beauty Buffet’s customers will be acknowledged about the shop to come when they need more choices in what brands or price levels. Although The Product Brands in this case would not be the same store name but all in-store products brands are still belonging to their own any way.

7 References


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